

OPEN MEETING



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MEMORANDUM

TO: THE COMMISSION

Arizona Corporation Commission

AZ CORP COMMISSION

DOCKET CONTROL

DOCKETED

FROM: Utilities Division

FEB 21 2014

2014 FEB 21 PM 2 21

DATE: February 21, 2014

DOCKETED BY

ORIGINAL

RE: SOUTHWEST GAS CORPORATION – APPLICATION FOR APPROVAL OF ITS PROPOSAL TO REVISE THE RATE COLLECTED THROUGH ITS DEMAND-SIDE MANAGEMENT ADJUSTOR MECHANISM (DOCKET NO. G-01551A-14-0027)

Background

On January 30, 2014, Southwest Gas Corporation (“Southwest” or “the Company”) filed its application to reset its Demand-Side Management (“DSM”) adjustor rate. Once approved by the Commission, the reset rate is then effective for twelve months, from April 1st through March 31st of the next year.

The purpose of the DSM adjustor mechanism is to recover the cost of the Company’s Commission-approved DSM programs. Southwest files an application each year to reset its DSM adjustor rate. The DSM adjustor rate is calculated to align it with projected spending for the upcoming year, and to true-up existing over- or under-collections.

The Current Budget

The current annual budget was ordered to be maintained at \$4.7 million in Decision No. 74305 (January 30, 2014). Decision No. 74300 (January 29, 2014) ordered that the annual budget remain at \$4.7 million for both Year Three and Year Four of Southwest’s Implementation Plan.

Under-collection

In Decision No. 73772 (March 21, 2013), the per-therm DSM surcharge was set at \$0.007791 to recover the \$4.7 million approved budget. At that time, in addition to the \$4.7 million, there was an under-collected balance of approximately \$802,000. Projections also indicated that accruals were likely to significantly exceed recoveries during the first three months of 2013. (From January through March 2013 the approved budget was set at \$4.7 million, while the rate collected through the adjustor was \$0.00200.)

The under-collection is now projected to be approximately \$1.7 million by the end of March 2014. (The under-collection was \$2,898,443 as of December 31, 2013, but recoveries are projected to exceed accruals significantly in the January-March 2014 period, thereby reducing

the under-collection.) The surcharge proposed by the Company is designed to recover the yearly budget and, over the course of the year following reset, resolve the under-collection.

Current and Proposed Adjustor Rate

Decision No. 73772 (March 21, 2013) ordered the DSM adjustor rate to be reset to \$0.007791. In its current application, Southwest is requesting that the DSM adjustor rate be increased from \$0.007791 to \$0.01003 in order to cover its authorized budget and to reduce the under-collection.

The calculations for the Company's proposed DSM adjustor rate are shown below.

Southwest 2014 DSM Reset	
Annual Budget	\$4,700,000
DSM Balancing Account Balance as of 12/31/2013	\$2,898,443
Estimated Surcharge Recoveries, January-March 2014	(\$2,240,355)
Estimated Surcharge Accruals, January-March 2014	\$1,003,691
Total to be recovered	\$6,361,779
Minus amount recovered from low-income customers ¹	(\$24,857)
Total Non-Low-Income amount to be recovered	\$6,336,923
Non-Low-Income DSM Therms projected to be sold	631,523,680
DSM Surcharge Rate Per Therm (\$6,336,922/631,523,680)	\$0.01003

Recommendations

Staff recommends that the DSM surcharge be set at \$0.01 per therm, rather than at \$0.01003 per therm, as requested by the Company. The difference between \$0.01 per therm and \$0.01003 per therm is *de minimis* (less than one third of one percent of the total amount projected for recovery), and setting the adjustor rate at a penny per therm has the advantage of making the rate simpler to calculate and recall. Any impact on resolving the under-collection would be minimal.

Bill Impact

The monthly impact of the existing and proposed per therm rates are shown in the tables below. The Summer, Winter, and Annual usage averages are for Residential customers.

¹ Low-income customers are billed \$0.00200 per therm.

Period	Average Residential therms used per month	Impact
Summer	11	\$0.09
Winter	41	\$0.32
Annual	26	\$0.20


Average Impact of Company's proposed \$0.01003 per therm rate

Period	Average Residential therms used per month	Impact
Summer	11	\$0.11
Winter	41	\$0.41
Annual	26	\$0.26

Average Impact of Staff's proposed \$0.01 per therm rate

Period	Average Residential therms used per month	Impact
Summer	11	\$0.11
Winter	41	\$0.41
Annual	26	\$0.26

The difference between the impact on Southwest's proposed rate and Staff's proposed rate is limited, but shows up if the rounding is changed. (For example, at \$0.01000 per therm, the impact is \$0.26000 per month, based on an annual average, while at \$0.01003 per therm the impact is \$0.260780.)



Steven M. Olea
Director
Utilities Division

SMO:JMK:sms\CHH

ORIGINATOR: Julie McNeely-Kirwan

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2 **BEFORE THE ARIZONA CORPORATION COMMISSION**

3 BOB STUMP

Chairman

4 GARY PIERCE

Commissioner

5 BRENDA BURNS

Commissioner

6 BOB BURNS

Commissioner

7 SUSAN BITTER SMITH

Commissioner

8
9 IN THE MATTER OF THE APPLICATION)
10 OF SOUTHWEST GAS CORPORATION)
11 FOR APPROVAL OF ITS PROPOSED)
12 REVISION TO THE RATE COLLECTED)
13 THROUGH ITS DEMAND-SIDE)
14 MANAGEMENT ADJUSTOR)
15 MECHANISM.)

DOCKET NO. G-01551A-14-0027

DECISION NO. _____

ORDER

14 Open Meeting

15 March 11 and 12, 2014

16 Phoenix, Arizona

17 BY THE COMMISSION:

18 FINDINGS OF FACT

19 1. Southwest Gas Corporation ("Southwest" or "the Company") is engaged in
20 providing natural gas service within portions of Arizona, pursuant to authority granted by the
21 Arizona Corporation Commission.

22 2. Southwest serves approximately one million customers in the counties of Gila, La
23 Paz, Cochise, Graham, Maricopa, Pima, Greenlee, Mohave, Pinal and Yuma. Of these customers,
24 approximately 970,000 are Residential, while 40,000 are Commercial. Southwest also serves a
25 smaller number of Industrial, Irrigation and Transportation customers.

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1 Background: DSM Adjustor Mechanism and Reset

2 3. On January 30, 2014, Southwest filed its application to reset its Demand-Side
3 Management ("DSM") adjustor rate. Once approved by the Commission, the reset rate is then
4 effective for twelve months, from April 1st through March 31st of the next year.

5 4. The purpose of the DSM adjustor mechanism is to recover the cost of the
6 Company's Commission-approved DSM programs. Southwest files an application each year to
7 reset its DSM adjustor rate. The DSM adjustor rate is calculated to align it with projected
8 spending for the upcoming year, and to true-up existing over- or under-collections.

9 The Current Budget

10 5. The current approved budget is \$4.7 million (see Decision No. 74305 and Decision
11 No. 74300).

12 Under-collection

13 6. In Decision No. 73772 (March 21, 2013), the per-therm DSM surcharge was set at
14 \$0.007791 to recover the \$4.7 million approved budget. At that time, in addition to the \$4.7
15 million, there was an under-collected balance of approximately \$802,000. Projections also
16 indicated that expenditures were likely to significantly exceed recoveries during the first three
17 months of 2013. (From January through March 2013 the approved budget was set at \$4.7 million,
18 while the rate collected through the adjustor was \$0.00200.)

19 7. The under-collection is now projected to be approximately \$1.7 million by the end
20 of March 2014. (The under-collection was \$2,898,443 as of December 31, 2013, but recoveries are
21 projected to exceed expenditures significantly in the January-March 2014 period, thereby reducing
22 the under-collection.) The surcharge proposed by the Company is designed to recover the yearly
23 budget and, over the course of the year following reset, resolve the under-collection.

24 Current and Proposed Adjustor Rate

25 8. In its current application, Southwest is requesting that the DSM adjustor rate be
26 increased from \$0.007791 to \$0.01003 in order to cover its authorized budget and to reduce the
27 under-collection.

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9. The calculations for the Company's proposed DSM adjustor rate are shown below.

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Recommendations

10. Staff has recommended that the DSM surcharge be set at \$0.01 per therm, rather than at \$0.01003 per therm, as requested by the Company. The difference between \$0.01 per therm and \$0.01003 per therm is *de minimis* (less than one third of one percent of the total amount projected for recovery), and setting the adjustor rate at a penny per therm has the advantage of making the rate simpler to calculate and recall. Any impact on resolving the under-collection would be minimal.

Bill Impact

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12. The difference between the impact of Southwest's proposed rate and Staff's proposed rate is limited, but shows up if the rounding is changed. (For example, at \$0.01000 per therm, the impact is \$0.26000 per month, based on an annual average, while at \$0.01003 per therm the impact is \$0.260780.)

CONCLUSIONS OF LAW

1. Southwest Gas Corporation is an Arizona public service corporation within the meaning of Article XV, Section 2, of the Arizona Constitution.

2. The Commission has jurisdiction over Southwest Gas Corporation and over the subject matter of the application.

3. The Commission, having reviewed the application and Staff's Memorandum dated February 21, 2014, concludes that it is in the public interest to approve the per-therm adjustor rate as discussed herein.

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ORDER

IT IS THEREFORE ORDERED that Southwest Gas Corporation's Demand-Side Management Adjustor rate be reset to \$0.01 per therm, effective April 1, 2014.

IT IS FURTHER ORDERED that this Order shall take effect immediately.

BY THE ORDER OF THE ARIZONA CORPORATION COMMISSION

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, JODI JERICH, Executive Director of the Arizona Corporation Commission, have hereunto, set my hand and caused the official seal of this Commission to be affixed at the Capitol, in the City of Phoenix, this _____ day of _____, 2014.

JODI JERICH
EXECUTIVE DIRECTOR

DISSENT: _____

DISSENT: _____

SMO:JMK:sms\CHH

1 SERVICE LIST FOR: SOUTHWEST GAS CORPORATION
2 DOCKET NO. G-01551A-14-0027

3 Mr. Steven M. Olea
4 Director, Utilities Division
5 Arizona Corporation Commission
6 1200 West Washington Street
7 Phoenix, Arizona 85007

8 Ms. Janice M. Alward
9 Chief Counsel, Legal Division
10 Arizona Corporation Commission
11 1200 West Washington Street
12 Phoenix, Arizona 85007

13 Jason S. Wilcock, Esq.
14 Associate General Counsel
15 Southwest Gas Corporation
16 P.O. Box 98510
17 Las Vegas, Nevada 89193-8510

18 Debra Gallo
19 Director/Government & State
20 Regulatory Affairs
21 Southwest Gas Corporation
22 P.O. Box 98510
23 Las Vegas, Nevada 89193-8510
24
25
26
27
28